

**REPORT OF THE AUDIT OF THE
OWEN COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2007**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE OWEN COUNTY FISCAL COURT

June 30, 2007

The Auditor of Public Accounts has completed the audit of the Owen County Fiscal Court for fiscal year ended June 30, 2007. We have issued unqualified opinions on the governmental activities and each major fund.

Financial Condition:

The fiscal court had net assets of \$26,200,808 as of June 30, 2007. The fiscal court had unrestricted net assets of \$1,109,692 in its governmental activities as of June 30, 2007. The fiscal court had total debt principal as of June 30, 2007 of \$105,581 with \$30,738 due within the next year.

Report Comments:

- 2007-01 The Deputy Judge Was Overpaid
- 2007-02 The Owen County Fiscal Court Lacked Adequate Segregation Of Duties Over The Payroll Function
- 2007-03 Internal Controls Over Information Technology Should Be Strengthened
- 2007-04 The Payroll Bank Account Was Not Reconciled Monthly

Deposits:

The fiscal court's deposits were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$613,051 as of August 31, 2006
- Uncollateralized and Uninsured \$22,765 as of June 30, 2007

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable William P. O'Banion, Owen County Judge/Executive
Members of the Owen County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of Owen County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Owen County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Owen County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Owen County, Kentucky, as of June 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statement but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
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Honorable William P. O'Banion, Owen County Judge/Executive
Members of the Owen County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated May 8, 2008 on our consideration of Owen County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2007-01 The Deputy Judge Was Overpaid
- 2007-02 The Owen County Fiscal Court Lacked Adequate Segregation Of Duties Over The Payroll Function
- 2007-03 Internal Controls Over Information Technology Should Be Strengthened
- 2007-04 The Payroll Bank Account Was Not Reconciled Monthly

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

May 8, 2008

OWEN COUNTY OFFICIALS

For The Year Ended June 30, 2007

Fiscal Court Members:

William P. O'Banion	County Judge/Executive
Ray Smith	Magistrate
Bobby Gaines	Magistrate
Jerry Jones	Magistrate
Teresa Davis	Magistrate

Other Elected Officials:

Charles Carter	County Attorney
David Bruce	Jailer
Joan Kincaid	County Clerk
Cindy Wright	Circuit Court Clerk
Zemer Hammond	Sheriff
Jimmy Coyle	Property Valuation Administrator
Lannis Garnett	Coroner

Appointed Personnel:

Gayla Lewis	County Treasurer
Renaee Gaines	Payroll Officer

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OWEN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

OWEN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

	<u>Primary Government Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,109,692
Total Current Assets	<u>1,109,692</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land and Land Improvements	259,600
Buildings	513,237
Vehicles and Equipment	556,466
Infrastructure Assets - Net of Depreciation	<u>23,867,394</u>
Total Noncurrent Assets	<u>25,196,697</u>
Total Assets	<u>26,306,389</u>
LIABILITIES	
Current Liabilities:	
Financing Obligations	<u>30,738</u>
Total Current Liabilities	<u>30,738</u>
Noncurrent Liabilities:	
Financing Obligations	<u>74,843</u>
Total Noncurrent Liabilities	<u>74,843</u>
Total Liabilities	<u>105,581</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	25,091,116
Unrestricted	<u>1,109,692</u>
Total Net Assets	<u>\$ 26,200,808</u>

The accompanying notes are an integral part of the financial statements.

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OWEN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2007

OWEN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,332,150	\$ 14,699	\$ 184,807	\$
Protection to Persons and Property	823,145	392,378	81,320	
General Health and Sanitation	232,301	110,820		
Social Services	42,797			11,823
Recreation and Culture	57,439			
Roads	1,794,329		1,385,489	22,528
Interest On Short-term Debt	5,167			
Capital Projects	983,469			858,750
Total Governmental Activities	<u>\$ 5,270,797</u>	<u>\$ 517,897</u>	<u>\$ 1,651,616</u>	<u>\$ 893,101</u>

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

Excess Fees

Miscellaneous Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restate)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

OWEN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

Net (Expenses) Revenues and Changes in Net Assets	
Primary Government	
Governmental Activities	
\$	(1,132,644)
	(349,447)
	(121,481)
	(30,974)
	(57,439)
	(386,312)
	(5,167)
	(124,719)
	<u>(2,208,183)</u>
	407,459
	19,633
	96,516
	782,390
	61,965
	91,225
	<u>1,459,188</u>
	(748,995)
	<u>26,949,803</u>
\$	<u>26,200,808</u>

The accompanying notes are an integral part of the financial statements.

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OWEN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

OWEN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

	General Fund	Road Fund	Jail Fund	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 804,131	\$ 303,045	\$ 2,516	\$ 1,109,692
Total Assets	<u>804,131</u>	<u>303,045</u>	<u>2,516</u>	<u>1,109,692</u>
FUND BALANCES				
Reserved for:				
Encumbrances	786	811		1,597
Unreserved:				
General Fund	803,345			803,345
Special Revenue Funds		302,234	2,516	304,750
Total Fund Balances	<u>\$ 804,131</u>	<u>\$ 303,045</u>	<u>\$ 2,516</u>	<u>\$ 1,109,692</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 1,109,692
Amounts Reported for Governmental Activities in the Statement of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	36,076,291
Accumulated Depreciation	(10,879,594)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Financing Obligations	<u>(105,581)</u>
Net Assets of Governmental Activities	<u>\$ 26,200,808</u>

The accompanying notes are an integral part of the financial statements.

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OWEN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

OWEN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	General Fund	Road Fund	Jail Fund	Total Governmental Funds
REVENUES				
Taxes	\$ 1,305,939	\$	\$	\$ 1,305,939
Excess Fees	61,965			61,965
Intergovernmental	1,065,642	1,408,842	72,702	2,547,186
Charges for Services	514,579		1,340	515,919
Miscellaneous	45,148	18,196		63,344
Interest	24,107	3,342		27,449
Total Revenues	<u>3,017,380</u>	<u>1,430,380</u>	<u>74,042</u>	<u>4,521,802</u>
EXPENDITURES				
General Government	632,223			632,223
Protection to Persons and Property	593,714		243,282	836,996
General Health and Sanitation	230,651			230,651
Social Services	42,595			42,595
Recreation and Culture	54,013			54,013
Roads		1,232,937		1,232,937
Debt Service	5,167			5,167
Capital Projects	983,469			983,469
Administration	469,241	197,795	14,070	681,106
Total Expenditures	<u>3,011,073</u>	<u>1,430,732</u>	<u>257,352</u>	<u>4,699,157</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>6,307</u>	<u>(352)</u>	<u>(183,310)</u>	<u>(177,355)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	100,000		180,500	280,500
Transfers To Other Funds	(180,500)	(100,000)		(280,500)
Total Other Financing Sources (Uses)	<u>(80,500)</u>	<u>(100,000)</u>	<u>180,500</u>	
Net Change in Fund Balances	(74,193)	(100,352)	(2,810)	(177,355)
Fund Balances - Beginning	878,324	403,397	5,326	1,287,047
Fund Balances - Ending	<u>\$ 804,131</u>	<u>\$ 303,045</u>	<u>\$ 2,516</u>	<u>\$ 1,109,692</u>

The accompanying notes are an integral part of the financial statements.

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**OWEN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2007

OWEN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ (177,355)
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Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities, the Cost of Those Assets Are Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay	655,264
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Depreciation Expense	(1,255,856)
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Lease and Bond Principal Payments Are Expensed in the Governmental Funds as a use of Current Financial Resources.

Financing Obligations Principal Payments	28,952
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Change in Net Assets of Governmental Activities	\$ (748,995)
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TO THE FINANCIAL STATEMENTS**

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OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet – Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Owen County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service.

C. Owen County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Owen County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Owen County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities normally are supported by taxes and intergovernmental revenues. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental). The fiscal court may also designate any fund as major. For this fiscal year, there were no non-major funds reported by the fiscal court.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the financial statements.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Special Revenue Funds:

The Road Fund and Jail Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 2,000	10-60
Buildings and Building Improvements	\$ 2,000	10-75
Machinery and Equipment	\$ 2,000	3-25
Vehicles	\$ 2,000	3-25
Infrastructure	\$ 2,000	10-50

G. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government’s deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of August 31, 2006 and June 30, 2007, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the county’s deposits in accordance with the security agreement.

- Uncollateralized and uninsured \$613,051 as of August 31, 2006
- Uncollateralized and uninsured \$22,765 as of June 30, 2007

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
Capital Assets Not Being Depreciated:				
Land	\$ 215,000	\$	\$	\$ 215,000
Total Capital Assets Not Being Depreciated	215,000			215,000
Capital Assets, Being Depreciated:				
Land Improvements	50,000			50,000
Buildings	612,126			612,126
Vehicles and Equipment	1,643,314	199,312		1,842,626
Infrastructure	32,900,587	455,952		33,356,539
Total Capital Assets Being Depreciated	35,206,027	655,264		35,861,291
Less Accumulated Depreciation For:				
Land Improvements	(3,600)	(1,800)		(5,400)
Buildings	(89,488)	(9,401)		(98,889)
Vehicles and Equipment	(1,164,507)	(121,653)		(1,286,160)
Infrastructure	(8,366,143)	(1,123,002)		(9,489,145)
Total Accumulated Depreciation	(9,623,738)	(1,255,856)		(10,879,594)
Total Capital Assets, Being Depreciated, Net	25,582,289	(600,592)		24,981,697
Governmental Activities Capital Assets, Net	\$ 25,797,289	\$ (600,592)	\$ 0	\$ 25,196,697

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 18,821
Protection to Persons and Property	46,658
General Health and Sanitation	1,650
Social Services	202
Recreation and Culture	3,426
Roads, Including Depreciation of General Infrastructure Assets	<u>1,185,099</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,255,856</u>

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 4. Short-term Debt

In July 2006, Owen County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note for the General Fund in the amount of \$194,740, with principal being due in January 2007. The County used the borrowed funds in order to meet current General Fund expenses.

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Kentucky Advanced Revenue Program	\$	\$ 194,740	\$ 194,740	\$
Governmental Activities Short-term Liabilities	\$ 0	\$ 194,740	\$ 194,740	\$ 0

Note 5. Long-term Debt

A. Police Cruisers-Financing Obligation

On November 17, 2005, the Owen County Fiscal Court entered into a \$47,586 four-year financing agreement with Ford Motor Credit Company to purchase two police cruisers at an interest rate of 6.35%. An annual payment is due each November 21, with the first monthly payment beginning November 21, 2005. The following schedule outlines the remaining payments.

<u>Fiscal Year Ended June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 11,496	\$ 1,507
2009	12,227	776
Totals	\$ 23,723	\$ 2,283

B. Ambulance-Financing Obligation

On August 10, 2005, the Owen County Fiscal Court entered into a \$100,000 five-year financing agreement with Oshkosh Capital to purchase a new ambulance. An annual payment is due each July 24, with the first monthly payment beginning July 24, 2006. The following schedule outlines the remaining payments.

<u>Fiscal Year Ended June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 19,242	\$ 3,373
2009	20,035	2,580
2010	20,861	1,754
2011	21,720	895
Totals	\$ 81,858	\$ 8,602

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 5. Long-term Debt (Continued)

C. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Financing Obligations	\$ 134,533	\$	\$ 28,952	\$ 105,581	\$ 30,738
Governmental Activities Long-term Liabilities	\$ 134,533	\$ 0	\$ 28,952	\$ 105,581	\$ 30,738

Note 6. Interest On Financing Obligations

Protection to Persons and Property on the Statement of Activities includes \$6,665 in interest on financing obligations.

Note 7. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 8. Deferred Compensation

The Owen County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 8. Deferred Compensation (Continued)

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 9. Insurance

For the fiscal year ended June 30, 2007, Owen County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Prior Period Adjustment

The net asset beginning balance was decreased by \$1,200 to account for an asset not included on the prior year capital asset list and a prior year error in depreciation.

Note 11. Subsequent Events

The County has signed for \$4,500,000 in bond financing. The proceeds for this issuance will provide for the interim financing for the cost of constructing a Justice Center.

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OWEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007

OWEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 1,232,800	\$ 1,241,500	\$ 1,305,939	\$ 64,439
Excess Fees	22,097	61,997	61,965	(32)
Intergovernmental Revenue	370,781	1,236,255	1,065,642	(170,613)
Charges for Services	420,000	420,000	514,579	94,579
Miscellaneous	23,400	38,600	45,148	6,548
Interest	9,300	22,166	24,107	1,941
Total Revenues	2,078,378	3,020,518	3,017,380	(3,138)
EXPENDITURES				
General Government	582,464	689,163	632,223	56,940
Protection to Persons and Property	809,126	715,158	593,714	121,444
General Health and Sanitation	157,834	258,732	230,651	28,081
Social Services	42,544	44,001	42,595	1,406
Recreation and Culture	49,819	54,013	54,013	
Debt Service	194,750	199,907	199,907	
Capital Projects	112,500	983,469	983,469	
Administration	539,097	453,331	469,241	(15,910)
Total Expenditures	2,488,134	3,397,774	3,205,813	191,961
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(409,756)	(377,256)	(188,433)	188,823
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	100,000	100,000	100,000	
Transfers To Other Funds	(184,984)	(184,984)	(180,500)	4,484
Kentucky Advanced Revenue Program Proceeds	194,740	194,740	194,740	
Total Other Financing Sources (Uses)	109,756	109,756	114,240	4,484
Net Changes in Fund Balance	(300,000)	(267,500)	(74,193)	193,307
Fund Balance - Beginning	300,000	300,000	878,324	578,324
Fund Balance - Ending	\$ 0	\$ 32,500	\$ 804,131	\$ 771,631

OWEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,070,344	\$ 1,540,303	\$ 1,408,842	\$ (131,461)
Miscellaneous	1,000	15,450	18,196	2,746
Interest	3,000	3,500	3,342	(158)
Total Revenues	1,074,344	1,559,253	1,430,380	(128,873)
EXPENDITURES				
Roads	881,250	1,381,703	1,232,937	148,766
Administration	243,094	227,550	197,795	29,755
Total Expenditures	1,124,344	1,609,253	1,430,732	178,521
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(50,000)	(50,000)	(352)	49,648
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(100,000)	(100,000)	(100,000)	
Total Other Financing Sources (Uses)	(100,000)	(100,000)	(100,000)	
Net Changes in Fund Balance	(150,000)	(150,000)	(100,352)	49,648
Fund Balance - Beginning	150,000	150,000	403,397	253,397
Fund Balance - Ending	\$ 0	\$ 0	\$ 303,045	\$ 303,045

OWEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 69,640	\$ 69,640	\$ 72,702	\$ 3,062
Charges for Services	200	895	1,340	445
Total Revenues	69,840	70,535	74,042	3,507
EXPENDITURES				
Protection to Persons and Property	240,524	273,619	243,282	30,337
Administration	14,300	14,400	14,070	330
Total Expenditures	254,824	288,019	257,352	30,667
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(184,984)	(217,484)	(183,310)	34,174
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	184,984	184,984	180,500	(4,484)
Total Other Financing Sources (Uses)	184,984	184,984	180,500	(4,484)
Net Changes in Fund Balance		(32,500)	(2,810)	29,690
Fund Balance - Beginning			5,326	5,326
Fund Balance - Ending	\$ 0	\$ (32,500)	\$ 2,516	\$ 35,016

OWEN COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2007

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. General Fund Reconciliation

Expenditures

Total Expenditures-Budgetary Basis	\$ 3,205,813
Less: Kentucky Advanced Revenue Program	<u>(194,740)</u>
Total Expenditures-Modified Cash Basis	<u><u>\$ 3,011,073</u></u>

Other Financing Sources (Uses)

Total Financing Sources (Uses)-Budgetary Basis	\$ 114,240
Less: Kentucky Advanced Revenue Program	<u>(194,740)</u>
Total Financing Sources (Uses)-Modified Cash Basis	<u><u>\$ (80,500)</u></u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable William P. O'Banion, Owen County Judge/Executive
Members of the Owen County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities and each major fund of Owen County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements and have issued our report thereon dated May 8, 2008. Owen County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Owen County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Owen County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Owen County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting: 2007-01, 2007-02, 2007-03, and 2007-04.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Owen County's financial statements for the year ended June 30, 2007, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Owen County Judge/Executive's response to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Judge/Executive's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

May 8, 2008

**OWEN COUNTY
COMMENTS AND RECOMMENDATIONS
For Fiscal Year Ended June 30, 2007**

**OWEN COUNTY
COMMENTS AND RECOMMENDATIONS**

For Fiscal Year Ended June 30, 2007

SIGNIFICANT DEFICIENCIES/MATERIAL WEAKNESSES

2007-01 The Deputy Judge Was Overpaid

During our review of payroll, we found the Deputy Judge was overpaid by \$14,043. The quarterly report indicated the Deputy Judge was paid \$35,000 as budgeted and approved by the Fiscal Court, however, after recapping cancelled checks written to the Deputy Judge, the amount she received was actually \$49,043.

The Deputy Judge, who is also responsible for the payroll function (**see comment 2007-02**) posted part of her \$49,043 salary to the ambulance salary account code for five pay periods and four additional checks made out to her were backdated in the system (**see comment 2007-03**) and, as a result, were never posted to the quarterly report. The four backdated checks were dated for fiscal year 2007 as verified by the auditors observing the cancelled checks.

Additionally, the fiscal court's policy for salary payment is to pay employees for 26 pay periods or bi-weekly. However, the Deputy Judge actually received 27 paychecks during the year and of those 27 paychecks, 11 were for a full month's salary and not a two weeks salary.

The auditors performed additional procedures for the 2008 fiscal year and noted the same pattern as was found in the 2007 fiscal year.

We recommend the Deputy Judge, as the fiscal court's payroll officer, follow all policies concerning payroll as established by the fiscal court. We also recommend the fiscal court develop segregation of duties over payroll or provide strong oversight (**see comment 2007-01**) and seek reimbursement from the Deputy Judge for the \$14,043 overpayment. We also recommend the fiscal court seek reimbursement for the overpayment of matching retirement for incorrect wages reported for the Deputy Judge.

County Judge/Executive's Response: The County Judge/Executive conducted his own internal investigation and found no reason to consider any further action, other than making adjustments to the payroll process. Arrangements have already been made for repayment of said amount.

Auditor's Reply: The Auditor of Public Accounts will refer this audit to law enforcement upon the release of the report.

2007-02 The Owen County Fiscal Court Lacked Adequate Segregation Of Duties Over The Payroll Function

A lack of adequate segregation of duties exists over the payroll function. The deputy judge/executive enters the information necessary to process the payroll into the computer system, prepares the documentation to transfer monies from the County's Funds into the payroll revolving account, prepares the individual payroll checks and signs those checks, posts the payroll expenditures to the appropriations ledger, and reconciles the payroll bank account.

OWEN COUNTY
COMMENTS AND RECOMMENDATIONS
For Fiscal Year Ended June 30, 2007
(Continued)

SIGNIFICANT DEFICIENCIES/MATERIAL WEAKNESSES (Continued)

2007-02 The Owen County Fiscal Court Lacked Adequate Segregation Of Duties Over The Payroll Function (Continued)

Segregation of duties over payroll functions of cash transfers, preparation of checks, disbursements posting and reconciliation of bank records to source documents or implementation of compensating controls when limited by staff size is essential for providing protection from asset misappropriation and/or fraudulent financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

Because one employee handled all payroll functions and oversight was not provided, the following occurred:

1. The Deputy Judge/Executive was overpaid by \$14,043 (**see comment 2007-01**).
2. Checks were backdated during the fiscal year and never reported in the 2007 financial records or reports (**see comment 2007-03**).
3. The payroll bank account was not reconciled monthly (**see comment 2007-04**).

To adequately protect against misappropriation of assets and/or fraudulent financial reporting, we recommend the fiscal court separate the duties of entering the information necessary to process the payroll into the computer system, preparing the documentation, including the checks, to transfer monies from the County's Funds into the payroll revolving account, posting the payroll expenditures to the appropriations ledger, and reconciling the payroll bank account. If these duties cannot be segregated due to limited staff or limited budget, then strong oversight should be provided to the employee responsible for these duties.

County Judge/Executive's Response: Owen County Fiscal Court will contract with ADP for the purpose of processing our payroll.

2007-03 Internal Controls Over Information Technology Should Be Strengthened

The accounting software system in place for receipt and disbursement record keeping had no closeout process and no system controls in place over transactions posting. This deficiency provided the opportunity for an employee to backdate payroll checks, which resulted in these payroll checks never being posted to the 2007 financial records. Additionally, the accounting software also allowed access for multiple users.

Lack of adequate control over access to the accounting software system can result in incorrect financial records and reports and one user could later change transactions that were initially posted correctly by another user.

We recommend the fiscal court implement the following:

1. Any changes to previously recorded transactions require prior approval by another employee.
2. An employee independent of the transaction posting function review the ledgers and reports for accuracy.
3. Monthly reconciliation of the ledgers to the bank accounts.

County Judge/Executive's Response: Recommendations will be taken into consideration.

**OWEN COUNTY
COMMENTS AND RECOMMENDATIONS
For Fiscal Year Ended June 30, 2007
(Continued)**

SIGNIFICANT DEFICIENCIES/MATERIAL WEAKNESSES (Continued)

2007-04 The Payroll Bank Account Was Not Reconciled Monthly

The payroll bank account was not reconciled monthly. Adequate policies and procedures should include sound business practices, which include the monthly reconciliation of all bank accounts, including the payroll revolving account.

Monthly bank reconciliations increase the likelihood an accurate balance is maintained in the checking account. Additionally, if someone independent of the payroll records preparation and check disbursement function prepares the reconciliation, it reduces the likelihood of fraudulent payroll transactions occurring.

We recommend the fiscal court implement the following:

1. Monthly reconciliation of the payroll account, preferably by someone independent of the payroll function. If not feasible, strong oversight should be observed.
2. All deposits made and checks written from the payroll account should be reconciled to supporting source documentation.
3. Any checks outstanding for longer than a few months should be investigated and voided, if necessary.

County Judge/Executive's Response: New process will begin July 1, 2008.

